

DG 01-037

**ENERGYNORTH NATURAL GAS, INC.**

**2001 Summer Period Cost of Gas**

**Order Approving the Cost of Gas**

**O R D E R    N O. 23,668**

**March 29, 2001**

**APPEARANCES:** McLane, Graf, Raulerson, and Middleton by Steven V. Camerino, Esq. on behalf of EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England; Office of the Consumer Advocate by Kenneth E. Traum on behalf of residential utility consumers; and Donald M. Kreis, Esq. for the Staff of the New Hampshire Public Utilities Commission.

**1.   PROCEDURAL HISTORY**

On February 22, 2001, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (KeySpan), a public utility engaged in the business of distributing natural gas in 29 cities and towns in southern and central New Hampshire and the City of Berlin in northern New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) for the 2001 Summer period. Accompanying its COG filing was a Motion for Protective Order and Confidential Treatment, which was granted by Commission Order No. 23,655 (March 16, 2001). KeySpan's filing included the direct testimony and supporting attachments of A. Leo Silvestrini, Director of Rates and Regulatory Affairs, and Theodore E. Poe, Senior Resource Planning Consultant with Boston Gas Company.

An Order of Notice was issued on February 27, 2001.

KeySpan informed customers of the impending change by publishing a copy of the Order of Notice in the *Union Leader* on March 5, 2001.

On March 5, 2001, the Office of the Consumer Advocate (OCA) filed a Notice of Intent to Participate in this docket on behalf of residential utility consumers pursuant to the powers and duties granted to the OCA under RSA 363:28,II. There were no other intervenors in this docket. A duly noticed hearing on the merits was held at the Commission on March 21, 2001.

## **II. POSITIONS OF THE PARTIES AND STAFF**

### **A. EnergyNorth Natural Gas, Inc.**

KeySpan witnesses A. Leo Silvestrini and Theodore E. Poe addressed the following issues: 1) calculation of the Firm Sales COG rate and the impact on customer bills; 2) factors contributing to the increased rate; 3) reasons for the 2001 Summer COG under collection; and 4) gas purchasing policies for the 2001 Summer period.

#### **1. Calculation and Impact of the Firm Sales COG Rate**

The proposed 2001 Summer COG rate of \$0.7344 per therm was calculated by increasing the anticipated cost of gas of \$22,766,644 for net adjustments of \$3,073,200 and dividing the resulting anticipated costs of \$25,839,844 by projected therm sales of 35,183,579.

KeySpan's proposed 2001 Summer COG rate of \$0.7344 per therm for Firm Sales customers represents an increase of \$0.2665 per therm from the 2000 Summer weighted Firm Sales COG rate of \$0.4679 per therm.

The impact of the proposed firm sales COG rate is a monthly increase on the average residential heating customer's bill of \$13, a 34% increase as compared to last summer.

## **2. Reason for the Increased COG**

Two factors are primarily responsible for the increase in the proposed COG rate: an increase in the projected gas costs and a substantial prior period under collection.

The natural gas prices as quoted on the New York Mercantile Exchange (NYMEX) are substantially higher than the prices paid last summer. Mr. Poe explained that, among other reasons, inventories in the natural gas storage areas that serve New York, New Jersey and New England are at lower-than-usual levels and will increase the summer demand for natural gas. Another factor is the increased demand for natural gas required for electric generation, and the possibility of a very hot summer which would increase that demand. The projected increases in natural gas prices account for approximately three-fourths of the increase in the COG rate.

The remainder of the increase can be attributed to a large prior period under collection. The 2001 summer COG rate is designed to recover a prior period under collection of \$2,995,421.

### **3. Reasons for the 2000 Summer Under Collection**

Mr. Silvestrini testified that there were two primary reasons for the under collection from last summer. First, there was lower than projected gas usage, which resulted in less therms being billed to customers and reduced revenues of approximately \$300,000. Secondly, gas costs were substantially higher than had been anticipated at the time of the Revised 2000 Summer COG filing and approved in Commission Order No. 23,513 (June 23, 2000). The increase in natural gas prices above those forecasted for the remaining summer months caused actual gas costs to exceed projected costs by approximately \$2,400,000.

### **4. Gas Purchasing Policies**

Mr. Silvestrini testified that there had been no hedging of summer gas supplies and most of the summer supplies would be purchased under pricing provisions that adjust monthly to market conditions, with the remainder to be purchased on the "spot market" at the prevailing rate in effect at the time of the purchase.

Mr. Poe stated that KeySpan was monitoring the natural gas markets and would consider hedging summer supplies if the summer gas price volatility continued and KeySpan determined such action to be prudent. Mr. Poe noted that, currently, the NYMEX futures prices and the industry as a whole were predicting stable prices for this summer.

**B. OCA**

The OCA did not oppose KeySpan's proposed COG rates but expressed concern that there was no fixed price program for the summer period that customers could avail themselves of to eliminate the risk of price increases.

The OCA expressed concern that KeySpan, through its gas purchasing policies, had not done enough to reduce gas costs and provide rate stability. The OCA averred that the risks of substantial increases in the index prices of gas exceed the likelihood of significant decreases in the index prices, due to the electric supply situations in New York and New England. The OCA recommended that KeySpan seriously consider locking in gas prices for the summer period within the next thirty days.

**C. Staff**

Staff stated that it had reviewed the filing and recommended approval of the proposed COG rate. Staff noted

that an audit of the 2000 Summer period gas costs revealed a slight misallocation of costs between the summer and winter periods, which KeySpan agreed to correct. Staff also recommended KeySpan consider an allocation methodology that would more accurately assign fixed pipeline capacity related demand charges between the winter and summer periods. Demand charges are billed equally over twelve months and charged to the period in which they are billed, although the bulk of capacity is used to serve winter customers.

Staff also recommended that KeySpan file more comprehensive COG filings in future proceedings. Staff noted that New Hampshire's other natural gas utility, Northern Utilities, Inc. (Northern), provides significantly more information in its cost of gas filings. Staff suggested KeySpan's future COG filings be patterned after Northern's.

### **III. COMMISSION ANALYSIS**

After careful review of the record in this docket, we find that KeySpan's proposed COG rates will result in just and reasonable rates. Accordingly, we accept and approve KeySpan's proposed 2001 Summer Firm Sales Summer COG rate.

In light of last summer's experience, with steadily increasing prices throughout the period, we share the OCA's concerns regarding the effectiveness of KeySpan's summer

purchasing policy of delaying purchases until necessary in stabilizing and minimizing summer gas costs. We feel the OCA's suggestion that KeySpan lock-in current gas prices for a portion of its summer supply in advance has merit and should be seriously considered. We expect KeySpan to adequately document as to why, or why not, such action was taken. The results of such action should be filed with the Commission as part of the final summer COG reconciliation report.

Based on Staff's request, KeySpan agreed to consider an allocation which would more accurately assign fixed capacity demand costs between the summer and winter periods. KeySpan also expressed a willingness to revise its cost of gas filings to better assist Staff in its review. Accordingly, we direct KeySpan and Staff to work together in designing a more appropriate method of allocating fixed capacity demand charges and determining what additional information KeySpan should provide in its COG filings.

**Based upon the foregoing, it is hereby**

**ORDERED,** that KeySpan's proposed Firm Sales Summer COG rate of \$0.7344 per therm for the period of April 1, 2001 through October 31, 2001, is APPROVED, effective for bills rendered on or after April 1, 2001; and it is

**FURTHER ORDERED,** that the over or under collection shall accrue interest at the Prime Rate reported in the Wall Street Journal. The rate is to be adjusted each quarter using the rate reported on the first date of the month preceding the first month of the quarter; and it is

**FURTHER ORDERED,** that KeySpan may, without further Commission action, adjust the approved COG rate of \$0.7344 per therm upward or downward monthly based on KeySpan's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not vary more than twenty percent (20%) from the approved unit cost of gas (or \$0.1469 per therm); and it is

**FURTHER ORDERED,** that KeySpan will provide the Commission with its monthly calculation of the projected over or under- calculation, along with the resulting revised COG rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. KeySpan shall include a revised tariff page 20 - Calculation of Cost of Gas Adjustment for firm sales and revised firm rate schedules if KeySpan elects to adjust the COG rate; and it is



**FURTHER ORDERED,** that KeySpan file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of March, 2001.

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Douglas L. Patch  
Chairman

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Susan S. Geiger  
Commissioner

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Nancy Brockway  
Commissioner

Attested by:

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Thomas B. Getz  
Executive Director and Secretary